



STATE OF WISCONSIN

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Department of Employee Trust Funds  
Internal Audit

## **AUDIT REPORT**

# **CONTROLS OVER CLOSING INACTIVE ACCOUNTS**

APRIL 2004

2004-1A



STATE OF WISCONSIN  
**Department of Employee Trust Funds**  
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SECRETARY

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April 29, 2004

Eric Stanchfield, Secretary  
Department of Employee Trust Funds

Dear Secretary Stanchfield:

Subject: Controls Over Closing of Inactive Accounts

This report covers our audit of controls over the closing of inactive accounts, with special emphasis on accounting adjustment processors. Attached is a one-page summary Board report. We have also written a detailed report and distributed it to Administrators of the Division of Trust Finance and Employer Services and the Division of Retirement Services.

We acknowledge the cooperation of DETF staff and thank them for the time and effort they spent assisting us with this audit. It could not have been completed without their assistance.

Respectfully submitted by,

Robert J. Schaefer, CPA  
Director, Internal Audit

Gail Cartter, CPA  
Auditor-in-Charge

## AUDIT OF CONTROLS OVER CLOSING INACTIVE ACCOUNTS

### I. INTRODUCTION, AUDIT OBJECTIVES and OPINION

We identified different methods of closing accounts and reviewed written procedures and other controls over closing of these accounts. Our main objective was to provide reasonable assurance to management that controls over closing inactive accounts are adequate and effective and that risks are minimized. The emphasis of our audit was on inactive accounts that are closed with accounting adjustment processors. In our opinion, significant improvements to documentation will greatly reduce risks related to employee attrition and the capability to provide evidence that all transactions are appropriate.

### II. AUDIT IMPACT and PLANS OF ACTION

<p><b><i>Observation 1: Policies/Procedures</i></b> We found that controls-related documentation of the write-off process was in need of substantial improvement in two areas of closed accounts: individual processing and reconciling system reports.</p> <p><b><i>Processing Policies/Procedures:</i></b> Office of Trust Finance and Data Analysis (OTFDA) developed a write-up of various accounting adjustment processors, but it lacks sufficient detail to be considered a procedure or detailed worker instructor.</p> <p><b><i>Reconciliation Policies/Procedures:</i></b> There are no written procedures in either OTFDA or System &amp; Data Integrity Team (SDIT) to describe this process.</p> <p><b><i>Segregation of Duties in Policies/Procedures:</i></b> Segregation appears to be appropriate, based on our review of limited available written procedures and discussions with staff, but this is not apparent in existing written procedures.</p> <p>We would like to commend the Division of Retirement Services, which has numerous written procedures and detailed worker instructions for closing individual accounts.</p> <p><b><i>Plan of Action:</i></b> OTFDA recently completed ten written procedures and will formally document existing handwritten policies/procedures. Controls are in place for SDIT processes, and flowcharts were developed which provide a detailed flow of the reconciliation process. Plans are to train a third staff person to perform daily system reconciliation, and at that time detailed narratives, including documentation of segregation of duties, will be developed to supplement the flowcharts.</p>	<p><b><i>Observation 2: Transaction Documentation and Retention Standards</i></b> Standards for documentation requirements for closing member accounts were not made available to Internal Audit and we have concluded such standards do not exist. For example, we reviewed a transaction for which there was no supporting documentation in the imaged file. We believe standards should be developed to identify what documentation is required for each specific transaction type, for example, what types of documents must be completed and placed in the member's imaged file.</p> <p><b><i>Plan of Action:</i></b> When OTFDA formally documents existing handwritten policies/procedures, they will include descriptions of required documentation. Although documentation may not be in imaged files, it does exist in the OTFDA Access database. SDIT along with other managers in the Division of Trust Finance and Employer Services are discussing the possibility of creating a table that would retain transaction detail.</p>
<p><b><i>Observation 3: Member Identity Authentication Standards</i></b> Authentication standards that verify the identity of a person applying for a benefit vary depending on benefit type and do not include signature comparisons. As it applies to death benefits, the date of death for inactive members is not recorded at the time death certificates are received. As it applies to separation benefits, a member must complete and sign an application, however providing identification such as social security card or proof of birth date are generally not required. These policies increase the risk of identify theft for death and separation benefits.</p> <p><b><i>Plan of Action:</i></b> Division of Retirement Services recommends no action be taken at this time. Deaths reported to DETF are evident on the imaged files. Also, immediate entry of the date of death will be part of death notice processing under the new Benefit Payment System.</p>	<p><b><i>Observation 4: Access Security</i></b> Effective access security controls protect the system by preventing inappropriate access and unauthorized use. Originally we found OTFDA had access to one screen which they do not use. Because access to enter transactions should be restricted to staff who have a business need to do so, we brought this to the attention of the Chief Accountant who promptly had the access removed. Other access security appeared to be appropriate.</p> <p><b><i>Plan of Action:</i></b> None required.</p>

### III. SECRETARY'S OFFICE COMMENTS

The recommendations and follow-up actions identified appear appropriate and reasonable. If other controls can be identified that are cost-effective, they will be pursued and implemented.